

16 May 2022

Balkrishna Industries

Capacity addition, strong demand across regions; maintaining a Buy

Rating: Buy

Target Price: Rs.3,066

Share Price: Rs.2,127

Strong demand across regions for Balkrishna Industries and capacity additions were the highlights of the quarter. Gross margin expanded as the company passed on higher raw material costs, however, rising freight and energy costs impacted Ebitda margin. We expect the strong demand momentum to continue led by Europe. Recent capacity addition and a subsequent ramp-up by end-H1 FY23 augurs well for a healthy volume outlook. We maintain a Buy, at a revised TP of Rs.3,066 (30x FY24e).

Strong volume growth. Q4 volumes grew 13% y/y, 10% q/q, to 77,119 tonnes (FY22: 288,792 tonnes, up 27% y/y). Revenue grew 36% y/y, 17% q/q, to Rs23.7bn, as demand was strong across regions. With 50,000 tonnes recently added at the Bhuj plant, we expect volumes of ~330,000 tonnes in FY23 at max capacity. Capex at the Waluj-1 plant was deferred as demand was strong and it continued to operate at peak capacity. Also, the 55,000 tonnes carbon-black capacity and the power plant would be commissioned in the next 2-3 months. We continue to expect robust demand in agri and OHT in the US and Europe, and consistent volume growth in India. Accordingly, we expect strong, 23% growth in FY23 and 7% in FY24.

Margin betterment in FY23 and FY24. The Q4 FY22 EBITDA margin contracted 80bps sequentially to 21% due to high rubber, freight and energy costs. High freight costs shaved 400bps off margins, said management. At the start of Mar'22, the company raised prices ~3%; it expects costs to further go up 4% in Q1 FY23. It is expected to raise prices 3-4% in Jun'22 to recoup some costs. Hence, we expect margins of 24.4% in FY23 and 25.5% in FY24.

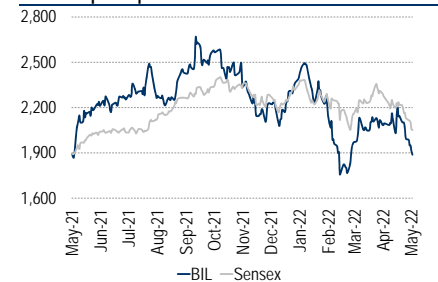
Valuations. We expect a 15% revenue CAGR over FY22-24, and 19% earnings growth, leading to an EPS of Rs102.2. We maintain a Buy rating, at a revised TP of Rs.3,066 (30x FY24e).

Key data	BIL IN / BLK1.B0
52-week high / low	Rs2945 / 1682
Sensex / Nifty	52930 / 15808
3-m average volume	\$8.7m
Market cap	Rs365bn / \$4714.2m
Shares outstanding	193m

Shareholding pattern (%)	Mar'22	Dec'21	Sep'21
Promoters	58.29	58.29	58.3
- of which, Pledged	-	-	-
Free float	41.71	41.71	41.7
- Foreign institutions	14.1	15.1	15.4
- Domestic institutions	11.8	11.6	12.6
- Public	15.9	15.1	13.7

Estimates revision (%)	FY23	FY24
Revenue	9.4	9.6
EBITDA	-1.1	-0.6
PAT	1.2	-1.1

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	47,825	57,579	82,667	101,759	108,462
Net profit (Rs m)	9,450	11,554	14,106	17,683	19,754
EPS (Rs)	48.9	59.8	73.0	91.5	102.2
P/E (x)	38.6	31.6	25.9	20.6	18.5
EV / EBITDA (x)	28.4	19.6	17.8	13.9	12.3
P/BV (x)	7.3	6.1	5.3	4.3	3.5
RoE (%)	19.5	20.9	21.8	22.8	20.9
RoCE (%)	16.6	18.1	17.3	17.8	17.5
Dividend yield (%)	1.1	0.3	1.2	0.4	0.4
Net debt / equity (x)	-0.2	-0.3	-0.2	-0.2	-0.3

Source: Company, Anand Rathi Research

India Research Team

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Quick Glance – Financials and Valuations

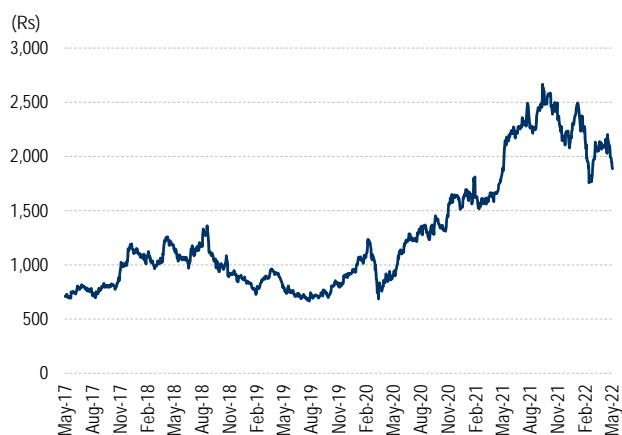
Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Net revenues	47,825	57,579	82,667	101,759	108,462
<i>Growth (%)</i>	-8.8	20.4	43.6	23.1	6.6
Raw material cost	21,268	23,028	37,786	48,641	50,760
Employee, other expenses	14,064	16,696	25,127	28,289	30,152
EBITDA	12,494	17,855	19,754	24,829	27,549
<i>EBITDA margins (%)</i>	<i>26.1</i>	<i>31.0</i>	<i>23.9</i>	<i>24.4</i>	<i>25.4</i>
- Depreciation	3,680	4,062	4,438	4,004	4,642
Other income	2,488	1,615	4,306	2,685	3,341
Interest expenses	73	98	79	79	74
Extraordinary items	-	-	-	-	-
PBT	11,228	15,310	19,544	23,432	26,175
<i>Effective tax rates (%)</i>	<i>16</i>	<i>25</i>	<i>28</i>	<i>25</i>	<i>25</i>
+ Associates / (Minorities)	-	-	-	-	-
Net income	9,450	11,554	14,106	17,683	19,754
Adjusted income	9,450	11,554	14,106	17,683	19,754
WANS	193	193	193	193	193
FDEPS (Rs / sh)	48.9	59.8	73.0	91.5	102.2

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT	11,228	15,310	19,544	23,432	26,175
+ Non-cash items	3,680	4,062	4,438	4,004	4,642
Oper. prof. before WC	14,909	19,371	23,982	27,436	30,817
- Incr. / (decr.) in WC	-2,263	3,418	10,019	361	3,515
Others incl. taxes	1,779	3,756	5,438	5,749	6,422
Operating cash-flow	15,393	12,197	8,525	21,326	20,880
- Capex (tang. + intang.)	8,496	7,333	15,057	9,416	11,510
Free cash-flow	6,897	4,864	-6,532	11,910	9,370
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	5,127	1,163	5,118	1,703	1,902
+ Equity raised	-	-	-	-	-
+ Debt raised	316	321	15,492	-5,200	-1,500
- Fin investments	-114	3,558	4,720	5,220	5,720
- Misc. (CFI + CFF)	2,301	347	-659	-414	-0
Net cash-flow	-101	116	-219	202	248

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

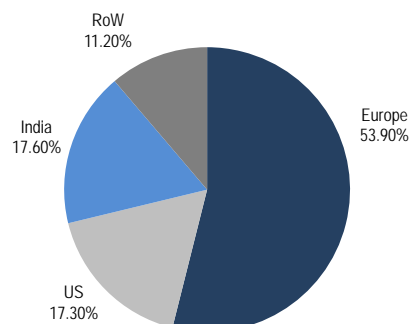
Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	387	387	387	387	387
Net worth	50,281	60,072	69,245	85,640	103,491
Debt	8,612	8,934	24,426	19,226	17,726
Minority interest	-	-	-	-	-
DTL / (Assets)	1,783	2,035	2,509	2,509	2,509
Capital employed	60,676	71,041	96,180	107,375	123,726
Net tangible assets	31,891	32,471	39,064	46,061	52,419
Net intangible assets	13	6	3	3	13
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	5,856	8,555	12,584	11,000	11,500
Investments (strategic)	-	-	-	-	-
Investments (financial)	11,488	15,046	19,766	24,986	30,706
Current assets (ex cash)	17,700	23,753	36,802	38,559	42,815
Cash	455	571	353	554	802
Current liabilities	6,726	9,361	12,391	13,787	14,528
Working capital	10,974	14,392	24,411	24,772	28,287
Capital deployed	60,676	71,041	96,180	107,375	123,726

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	38.6	31.6	25.9	20.6	18.5
EV / EBITDA (x)	28.4	19.6	17.8	13.9	12.3
EV / Sales (x)	7.4	6.1	4.3	3.4	3.1
P/B (x)	7.3	6.1	5.3	4.3	3.5
RoE (%)	19.5	20.9	21.8	22.8	20.9
RoCE (%) - after tax	16.6	18.1	17.3	17.8	17.5
RoIC (%) - after tax	16.8	18.2	17.4	17.9	17.6
DPS (Rs / sh)	20.0	5.0	22.0	7.3	8.2
Dividend yield (%)	1.1	0.3	1.2	0.4	0.4
Dividend payout (%) - incl. DDT	0.5	0.1	0.4	0.1	0.1
Net debt / equity (x)	-0.2	-0.3	-0.2	-0.2	-0.3
Receivables (days)	50	48	48	45	44
Inventory (days)	100	144	158	133	147
Payables (days)	62	100	78	71	73
CFO : PAT %	162.9	105.6	60.4	120.6	105.7

Source: Company, Anand Rathi Research

Fig 6 – Q4 FY22 revenue break-up, by region


Source: Company

Result highlights

Fig 7 – Quarterly performance

	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
VOLUMES												
Volume (MT)	51,304	45,169	47,321	57,966	38,096	61,224	59,810	68,002	68,606	72,748	70,320	77,119
Y/Y (%)	(9.6)	(13.7)	1.2	4.7	(25.7)	35.5	26.4	17.3	80.1	18.8	17.6	13.4
Q/Q (%)	(7.4)	(12.0)	4.8	22.5	(34.3)	60.7	(2.3)	13.7	0.9	6.0	(3.3)	9.7
Average realization	232,629	237,152	245,240	234,158	243,784	257,866	251,555	256,741	264,273	281,770	288,673	307,819
Y/Y (%)	(3.1)	(6.4)	(4.8)	(4.0)	4.8	8.7	2.6	9.6	8.4	9.3	14.8	19.9
Q/Q (%)	(4.6)	1.9	3.4	(4.5)	4.1	5.8	(2.4)	2.1	2.9	6.6	2.4	6.6
Net sales	11,935	10,712	11,605	13,573	9,287	15,788	15,046	17,459	18,131	20,498	20,300	23,739
Y/Y (%)	(12.4)	(19.2)	(3.7)	0.5	(22.2)	47.4	29.6	28.6	95.2	29.8	34.9	36.0
Q/Q (%)	(11.7)	(10.2)	8.3	17.0	(31.6)	70.0	(4.7)	16.0	3.8	13.1	(1.0)	16.9
Other Operating income												
Operating Income	11,935	10,712	11,605	13,573	9,287	15,788	15,046	17,459	18,131	20,498	20,300	23,739
Y/Y (%)	(12.4)	(19.2)	(3.7)	0.5	(22.2)	47.4	29.6	28.6	95.2	29.8	34.9	36.0
Q/Q (%)	(11.7)	(10.2)	8.3	17.0	(31.6)	70.0	(4.7)	16.0	3.8	13.1	(1.0)	16.9
EXPENDITURE												
(Incr.) / decr. in stock-in-trade	234	(392)	(218)	864	(534)	(26)	(385)	(543)	(979)	(668)	(491)	(415)
Materials	5,516	5,070	5,008	5,186	4,199	6,140	6,421	7,757	8,801	9,945	10,150	11,443
% of sales	48.2	43.7	41.3	44.6	39.5	38.7	40.1	41.3	43.1	45.3	47.6	46.5
Y/Y (%)	(9.9)	(23.6)	(13.4)	(8.3)	(36.3)	30.7	26.0	19.2	113.4	51.7	60.1	52.9
Q/Q (%)	(12.8)	(18.6)	2.4	26.3	(39.4)	66.8	(1.3)	19.5	8.4	18.6	4.1	14.2
Gross margin (%)	51.8	56.3	58.7	55.4	60.5	61.3	59.9	58.7	56.9	54.7	52.4	53.5
Staff cost	696	701	708	754	701	844	831	883	944	994	967	899
% of sales	5.8	6.5	6.1	5.6	7.6	5.3	5.5	5.1	5.2	4.9	4.8	3.8
Y/Y (%)	2.2	2.8	4.1	27.0	0.8	20.5	17.5	17.0	34.7	17.8	16.3	1.8
Q/Q (%)	17.0	0.7	1.0	6.6	(7.0)	20.4	(1.5)	6.1	7.0	5.3	(2.8)	(7.1)
Other expenditure	2,811	2,658	2,692	3,044	2,615	3,462	3,415	3,945	4,237	5,028	5,240	6,817
% of sales	23.6	24.8	23.2	22.4	28.2	21.9	22.7	22.6	23.4	24.5	25.8	28.7
Y/Y (%)	(5.8)	(14.9)	(5.2)	(2.5)	(7.0)	30.2	26.9	29.6	62.0	45.3	53.4	72.8
Q/Q (%)	(9.9)	(5.4)	1.3	13.1	(14.1)	32.4	(1.3)	15.5	7.4	18.7	4.2	30.1
Expenses	9,256	8,037	8,190	9,848	6,981	10,421	10,282	12,041	13,004	15,299	15,866	18,744
EBITDA	2,678	2,675	3,415	3,726	2,306	5,367	4,764	5,418	5,127	5,199	4,434	4,995
Y/Y (%)	(25.1)	(19.6)	13.5	16.4	(13.9)	100.7	39.5	45.4	122.3	(3.1)	(6.9)	(7.8)
Q/Q (%)	(16.3)	(0.1)	27.7	9.1	(38.1)	132.8	(11.2)	13.7	(5.4)	1.4	(14.7)	12.7
OPM (%)	22.4	25.0	29.4	27.4	24.8	34.0	31.7	31.0	28.3	25.4	21.8	21.0
Other income	716	807	301	664	333	184	514	584	782	1331	1116	1077
Interest 1	8	17	19	19	24	34	17	23	21	18	18	21
Depreciation 841		908	949	983	996	1,012	1,019	1,034	1,041	1,085	1,145	1,167
Profit before tax	2,536	2,557	2,748	3,388	1,619	4,505	4,241	4,945	4,847	5,427	4,387	4,884
Provision for taxation	776	(353)	542	815	401	1,110	1,022	1,223	1,535	1,655	1,101	1,147
Tax rate (%)	30.6	(13.8)	19.7	24.0	24.7	24.6	24.1	24.7	31.7	30.5	25.1	23.5
Adj PAT	1,760	2,910	2,207	2,573	1,218	3,395	3,219	3,722	3,312	3,772	3,285	3,737
Y/Y (%)	(23.6)	30.9	52.5	39.3	(30.8)	16.7	45.9	44.7	171.9	11.1	2.1	0.4
Q/Q (%)	(4.7)	65.3	(24.2)	16.6	(52.7)	178.7	(5.2)	15.6	(11.0)	13.9	(12.9)	13.7
EPS (Rs)	9.1	15.1	11.4	4	13.3	6.3	17.6	16.7	19.3	17.1	19.0	19.3

Source: Company

Valuations

We expect a 15% revenue CAGR over FY22-24, and 19% earnings growth, leading to an EPS of Rs102.2. We maintain a Buy rating, at a revised TP of Rs3,066 (30x FY24e).

Fig 8 – Change in estimates

(Rs m)	Old		Revised		Change %	
	FY23e	FY24s	FY23e	FY24e	FY23	FY24
Revenue 92,	995	98,960	101,759	108,462	9.4	9.6
EBITDA 25,	109	27,709	24,829	27,549	-1.1	-0.6
Adj. PAT	17,480	19,970	17,683	19,754	1.2	-1.1
EPS (Rs)	90	103	91	102	1.2	-1.1

Source: Anand Rathi Research

Fig 9 – Standard Deviation of one-year-forward PE



Source: Bloomberg, Anand Rathi Research

Risk

- Less-than-expected volume growth in FY23 and FY24.

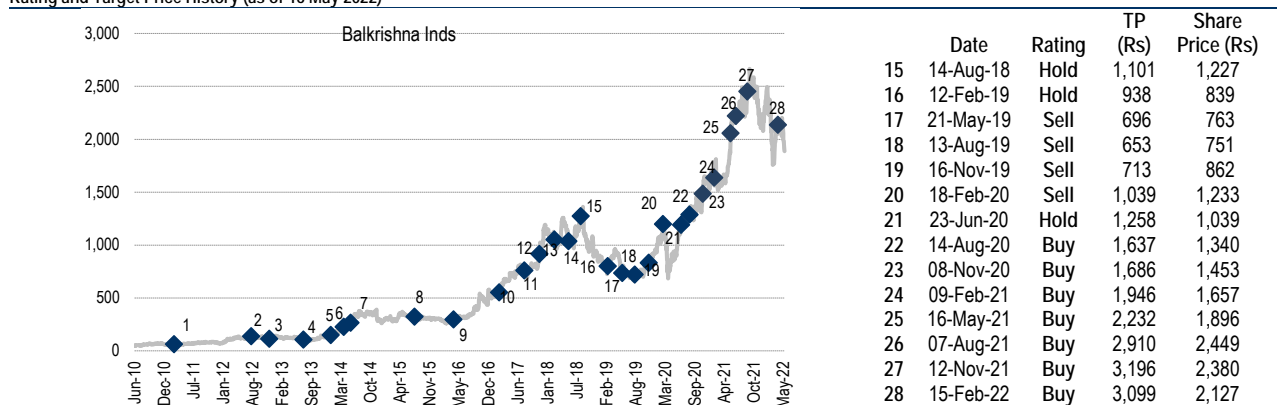
Appendix

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